

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 561

PRINTER NO. 634

AMOUNT

No Fiscal Impact

FUND

General Fund

DATE INTRODUCED

February 23, 2015

PRIME SPONSOR

Representative Kauffman

DESCRIPTION AND PURPOSE OF BILL

House Bill 561 amends The Local Tax Enabling Act (Act 511 of 1965) to exclude active duty military pay from the existing definition of “earned income”.

The legislation amends the definition of “earned income” contained in section 501 of The Local Tax Enabling Act by providing that the term does not include wages or compensation paid to individuals on active military service, regardless of whether it is earned for active military service inside or outside this Commonwealth.

The provisions of The Local Tax Enabling Act that applied until December 31, 2011, specifically excluded wages and compensation paid to individuals on active military service from the local earned income and net profits tax. However, under provisions of the law that were amended by Act 32 of 2008, an exclusion for military pay is available only for active duty service outside Pennsylvania.

Act 32 of 2008 made significant amendments to The Local Tax Enabling Act, including a change to the definition of “earned income.” The amended version largely defines earned income the same way “compensation” is defined for state personal income tax purposes under the Tax Reform Code of 1971. According to the Tax Reform Code, income received by a Pennsylvania resident for military service performed inside Pennsylvania – even if on federal active duty or federal active duty for training – is taxable under the state personal income tax unless it is for military duty inside the Commonwealth for an emergency pursuant to 35 Pa.C.S. Ch. 76.

The legislation shall apply to income taxes levied and collected after December 31, 2015. The act shall take effect immediately.

FISCAL IMPACT:

Enactment of this legislation will have no fiscal impact to the Commonwealth.

House Bill 561 may have a fiscal impact on local government units that receive tax revenue from a local income tax. The Department of Military and Veterans Affairs estimated that identical legislation passed unanimously by the House last session would have reduced statewide local income tax revenues by approximately \$1.6 million to \$1.8 million annually.

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The additional amount of local income tax revenue received from the taxation of active duty military pay because of changes made by Act 32 could be perceived as a windfall. There is some question as to whether the effects of this change were made unintentionally when The Local Tax Enabling Act was amended by Act 32.